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June 10, 2005

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 05-27

Dear Ms. Cottrell:

Enclosed is the Opposition of Bay State Gas Company to the Attorney General's Motion to Bifurcate.

Very truly yours,

Robert L. Dewees, Jr.

RLD/tlm
Enclosure

cc: Caroline M. Bulger, Hearing Officer (1 copy)
John Sullivan, DTE (7 copies)
Andreas Thanos, Assistant Director, Gas Division (1 copy)
Alexander J. Cochis, Assistant Attorney General (4 copies)
Service List

**THE COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

Petition of Bay State Gas Company)
For Approval of Revised Tariffs)
And Other Rate Modifications)

D.T.E. 05-27

**OPPOSITION OF BAY STATE GAS COMPANY TO THE
ATTORNEY GENERAL'S MOTION TO BIFURCATE**

On June 2, 2005, the Attorney General filed a Motion to Bifurcate Bay State Gas Company's ("Bay State") proposed PBR mechanism, pension and post-retirement benefits other than pensions ("PBOP") adjustment and steel infrastructure replacement ("SIR") adjustment mechanism from this proceeding. He proposes they be addressed in a "follow-on proceeding" to be conducted at some point after this proceeding has concluded. He asserts this procedure will ease the administrative burden on the Department and intervenors.

Bay State opposes the Motion, because it is not feasible to separate the issues suggested by the Attorney General, and those issues can, and should be, addressed in this proceeding.

The items listed by the Attorney General are not severable from this proceeding, as they are all interrelated and essential to the new rates proposed by Bay State in its initial filing. The PBR plan proposed by Lawrence Kaufmann is dependent on the rates determined to be reasonable by the Department in this case, and the Department should consider the design and structure of the PBR at the same time that it considers the level of rates it will be based on. The PBR plan also reflects the SIR program base rate adjustment mechanism, and

the Department should review both the PBR and the SIR rate adjustment mechanism in the context of its overall review of Bay State's proposed rates in this proceeding.

The Department has never separated consideration of a PBR from the general rate proceeding in which it has been proposed, and recently the Department denied a similar motion filed by the Attorney General to bifurcate consideration of the PBR from the Boston Gas Company rate case. Boston Gas Company d/b/a KeySpan Energy Delivery New England, D.T.E. 03-40, p. 4. In this case, Bay State's PBR plan is designed to be as consistent as possible with the Department's PBR standards, which do not contemplate separate proceedings for PBRs. Bay State's PBR plan is quite similar to the plan approved by the Department for Boston Gas Company in D.T.E. 03-40, and therefore should not require an inordinate amount of time to review. One of the reasons the Department has adopted PBR plans is the savings in regulatory review and costs that a PBR plan creates. Granting the Attorney General's Motion would dramatically increase, not decrease, regulatory burdens and costs as a full second proceeding would be required, separate from this case, to consider the PBR plan.

The SIR program and its related base rate adjustment mechanism are also directly related to the overall rate level the Department approves in this proceeding as well as the PBR plan. The program is already underway and the rate adjustment involves review of both current and future infrastructure investment issues which should be considered by the Department in this proceeding. The SIR rate adjustment includes an allowance for leak repair operations and maintenance cost savings based on test year levels of these costs. The PBR is designed so as not to apply to the SIR leak repair operations and maintenance costs.

As a result, both the SIR rate adjustment and the PBR must be addressed in the context of the costs and revenue requirements for base rates at issue in this case.

The Attorney General is not correct when he implies that, in this case, Bay State is requesting approval of a “\$300 million” steel replacement program. Rather, Bay State is only requesting a method by which steel replacement infrastructure investments can be reviewed in the future for inclusion in, or exclusion from, rates in the future. Under Bay State’s proposal, the Attorney General and other parties will have ample opportunity to review Bay State’s steel replacement investments when they occur, and there is no pre-approval of such costs being requested in this case.

Similarly, the pension/PBOP mechanism proposed by Bay State is directly related to the overall level of base rates that the Department will approve in this proceeding, and is consistent with pension/PBOP mechanisms approved by the Department for other companies. Bay State’s proposal here should not require any unusual amount of time to review, and the most efficient way for the Department to address the proposal is in the context of this general base rate proceeding.

As is the case with the Attorney General’s proposal for a separate future PBR proceeding, separate proceedings for the pension/PBOP and SIR mechanisms at some point in the future would significantly increase regulatory burdens and costs for the Department and other parties and would lengthen and complicate, and not simplify, the review of these issues.

In addition, the Attorney General ignores the fact that the Department has an obligation to conduct an investigation into the propriety of proposed increase in rates proposed by Bay State, as well as all gas and electric companies, within the six-month rate

suspension period, and the Department is not at liberty to postpone its statutorily required review. G.L. c. 164, s. 94; G.L. c. 25, s. 18.

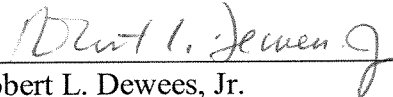
The Attorney General claims that the Department has recently approved a settlement submitted by Western Massachusetts Electric Company ("WMECO") under which WMECO agreed to "bifurcate" its next rate case to address the PBR mechanism in a follow-on proceeding. Western Massachusetts Electric Company, D.T.E. 04-106 (December 27, 2004). However, under that settlement, an ongoing general base rate proceeding was not bifurcated. Instead, WMECO agreed not to file a PBR mechanism until after the conclusion of its next base rate case.

For the foregoing reasons, the Attorney General's Motion to Bifurcate should be denied.

Respectfully submitted,

BAY STATE GAS COMPANY

By its attorneys,


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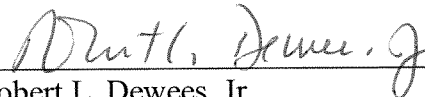
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Dated: June 10, 2005

CERTIFICATION

I certify that I served today a copy of the attached Opposition of Bay State Gas Company to the Attorney General's Motion to Bifurcate by hand delivery, first class mail postage prepaid or electronically on the Department of Telecommunication and Energy and all parties on the service list on file with the Secretary of the Department of Telecommunication and Energy for this proceeding.

Dated at Boston, Massachusetts this 10th day of June, 2005


Robert L. Dewees, Jr.